The PRESIDING OFFICER. Without objection, it is so ordered.

SUBCOMMITTEE ON SUPERFUND, RECYCLING AND SOLID WASTE MANAGEMENT

Mr. FORD. Mr. President, I ask unanimous consent that the Subcommittee on Superfund, Recycling and Solid Waste Management, Committee on Environment and Public Works, be authorized to meet during the session of the Senate on Thursday, June 10, beginning at 10 a.m., to conduct a hearing on the contract and fiscal management of the Superfund Program by the Environmental Protection Agency.

The PRESIDING OFFICER. Without objection, it is so ordered.

SUBCOMMITTEE ON FORCE REQUIREMENTS AND PERSONNEL

Mr. FORD. Mr. President, I ask unanimous consent that the Subcommittee on Force Requirements and Personnel of the Committee on Armed Services be authorized to meet on Thursday, June 10, 1993, at 9 a.m., in open session, to receive testimony on the National Guard and Reserve personnel and force structure programs of the military services associated with the Defense authorization request for fiscal year 1994 and the Future Years Defense Program.

The PRESIDING OFFICER. Without objection, it is so ordered.

SUBCOMMITTEE ON NUCLEAR DETERRENCE, ARMS CONTROL AND DEFENSE INTELLIGENCE

Mr. FORD. Mr. President, I ask unanimous consent that the Subcommittee on Nuclear Deterrence, Arms Control and Defense Intelligence of the Committee on Armed Services be authorized to meet on Thursday, June 10, 1993, at 9 a.m., in open and closed sessions, to receive testimony on Department of Energy national security programs in review of the Defense authorization request for fiscal year 1994 and the Future Years Defense Program.

The PRESIDING OFFICER. Without objection, it is so ordered.

ADDITIONAL STATEMENTS

THE PRESIDENT'S TAX PACKAGE

• Mr. MACK. Mr. President, in recent days, Treasury Secretary Bentsen repeated a common claim of the Clinton administration that the President's tax package will be good for the economy because it will keep interest rates on a downward path.

The Secretary said, and I am paraphrasing here, that if the President's plan failed we would have an immediate uptick in interest rates. He said we would have the serious danger of dropping back into a recession and the loss of jobs.

In other words, the Clinton administration is saying that the President's plan, which will impose the largest tax increase in American history, will spur economic growth.

When Americans hear this kind of tortured logic, they shake their heads in disbelief. How in the world can the Clinton people think that a whopping tax increase is good for the economy?

This odd point of view—that high taxes and a strong economy go hand in hand—is ridiculed by working Americans who have to pay the taxes. But it is also questioned by many economists who note that there is no economic theory that suggests a country can tax its way to prosperity. Here is what a small sample of them have to say:

Allan Meltzer of Carnegie Mellon University: He would "flunk an economics student" who maintained that lower interest rates could overcome reduced demand, from higher taxes, in the economy.

Dallas Batten of Citicorp: "It defies economic theory to say that a secondary effect like interest rates could overcome the primary effect of reduced demand, from higher taxes."

Lacy Hunt of HSBC Economics in New York:

> The advocates of [the President's] bill have threatened that interest rates would rise if the bill is not passed, although the contrary is more likely to be the case. Interest rates at the end of this year could well be lower if nothing were done, despite the early recession implied by a record tax increase, because the long-term effect will be a rise in the supply of Federal debt.
>
> Instead of being called the deficit reduction act, this legislation should be termed the early-recession act, since its passage will lead to an earlier downturn that would otherwise have been the case. An induced recession will greatly reduce Federal tax revenues despite the increase in tax rates, a lesson learned regionally in California and nationally after the disastrous tax hike of 1990.
>
> This so-called deficit-reduction legislation is a highly flawed approach to economic management. Growth will be curtailed, the standard of living will drop, and the deficit will continue to grow. Gridlock would be a far more preferable alternative.

I imagine I speak for many on my side when I say that I am genuinely concerned about what Clintonomics will do to the United States. It makes me even more nervous to hear the same message from those in other countries who are observing the meltdown in the Clinton administration.

But it makes me absolutely petrified for the future of the United States to hear criticism of the Clinton program from people in formerly socialist countries. Sweden is currently abandoning its version of Clintonomics—the so-called Swedish model—and quickly moving to cut taxes and government spending, and reduce the immense burden of the government on the lives of Swedish citizens. Ian Wachtmeister, who heads Sweden's New Democracy Party, issued a pointed warning to President Clinton recently. He said, "[The Swedes] are moving away from the welfare state. On your side, you are moving into it, and you risk destroying your country."•

FACES OF THE HEALTH CARE CRISIS IN MICHIGAN—RETIREE HEALTH CARE

• Mr. RIEGLE. Mr. President, I rise today in my continuing effort to put a face on the health care crisis in my home State of Michigan. I want to tell the story of Robert Fox of Ludington, MI, a 61-year-old retiree who recently wrote to me about the escalating costs of his health insurance premiums. Like many retirees under the age of 65, Mr. Fox is struggling because he must pay for his own health insurance until he is eligible for Medicare. The increasing cost of his health insurance premiums has caused he and his wife to seriously consider dropping their coverage.

Robert Fox worked for CSX Railroad for over 40 years before retiring in 1990. The railroad's policy is to pay the health insurance premiums for its employees and for retirees who retire when they are 62 years old or older. The company stops paying the premiums when the individual turns 65 and is eligible for Medicare.

However Robert suffers from emphysema and had to retire early because of poor health. Because of his early retirement, he must pay for his own health insurance for 4 years, until he reaches age 65, when he will be eligible for Medicare.

When Robert retired in 1990, he had to pay $330 a month for coverage for himself and his wife, Jean. Each year, the cost has steadily increased, to the point where it has become unaffordable on their fixed income. This year, the cost of their premium rose once more to $420 per month. The cost of the Foxes' health insurance premium is rising faster than their retirement income.

The Foxes' insurance policy covers hospitalization and physician services. It has a $100 yearly deductible and a 20-percent copayment. The policy does not cover prescription drugs so the Foxes pay $48.50 each month for prescriptions for Robert's emphysema and for Jean's epilepsy. Robert looked into changing health insurance policies, but because of their preexisting health conditions, they are considered uninsurable by many insurance companies.

Robert and his wife are seriously considering dropping their health insurance because they are not sure they can afford the cost. In the letter Robert sent to me last month, he told me: "I have decided to become one of the Nation's uninsured. I would much prefer to die in dignity, than to bleed to death in poverty by a hungry insurance company."

Robert calculated that if he and his wife were to drop their insurance, he could save over $15,000 by the time he reached 65. Our senior citizens should not be forced to take this kind of risk.

Workers who retire before they are eligible for Medicare need the security that comes with health care coverage. Companies around the Nation are cutting back on health insurance coverage for retired employees because of the high cost. Even when companies like CSX Railroad pay for coverage for retirees, individuals like Robert Fox can fall through the cracks.

I will continue to work for national health care reform to control the escalating costs of health care and to provide retirees with the peace of mind they deserve.•

DALE COUNTY RETIRED SENIOR VOLUNTEER PROGRAM [RSVP]

• Mr. SHELBY. Mr. President, I would like to pay tribute to the Dale County Retired Senior Volunteer Program [RSVP] which is celebrating its 20th year of service this June.

The Dale County RSVP has truly answered the Nation's call to service. RSVP members volunteer at various community facilities such as elementary and secondary schools, aviation and technical colleges, nursing homes and hospitals, libraries, senior centers, volunteer fire departments and volunteer rescue units, youth homes, bloodmobiles, and more. The RSVP volunteers are a varied and dedicated group of individuals who assist persons in time of need or reach out to help a child find and develop his or her potential.

In addition to regimented schedules with specific organizations, other services are provided year round. A sick or homebound person was able to enjoy a special holiday because of the care and charity of an RSVP volunteer who prepared him or her a meal.

Youth homes have been made brighter by the special touches volunteers give and the holiday parties that the volunteers host for these adolescents are always exciting and fun filled. Because a retired art teacher took the time to help a boy from one of the youth homes develop his talent, he won the Best of Show in the local Dale County art exhibition.

The program and its volunteers have received numerous honors and awards. Among them have been the Governor's Volunteer of the Year Award as well as twice receiving first runner-up for this award. Also, RSVP has received the Senior Citizen's Hall of Fame Award.

Volunteers have fun while continuing to learn and grow as individuals. Since 1973, Dale County RSVP has been a family of caring, sharing, and loving members.

I salute the Dale County Retired Senior Volunteer Program on their 20th anniversary. It is their continued hard work and dedication to the community that serves as a role model to Dale County, the State of Alabama, and our entire Nation. Thank you, volunteers.•

TRIBUTE TO ST. CLAIRE MEDICAL CENTER

• Mr. McCONNELL. Mr. President, I rise today to congratulate one of Kentucky's outstanding organizations, whose contributions to the Commonwealth are extraordinary.

The St. Claire Medical Center, located in Morehead, KY, has provided rural health care for northeastern Kentucky for the last 30 years. This exemplary institution is guided by the leadership of the Sisters of Notre Dame, especially the president/CEO Sister Mary Jeannette. Recently, this organization received the National Rural Health Associations Award for Outstanding Rural Practice. The award recognizes a community-oriented rural health care delivery practice which has improved health care access for rural citizens through innovative, comprehensive approaches.

St. Claire Medical Center opened its doors in June 1963, bringing the dream of a hospital to serve numerous counties in northeastern Kentucky. The original facility had 41 acute beds but has grown to a 170-bed complex following two major renovations. St. Claire recognized the need to serve outlying areas of the State with health care. In 1971, St. Claire started a home health program. St. Claire also began opening primary care clinics in the early 1970's which provided physician services for outlying areas. Today, there are 4 primary care clinics that serve more than 40,000 patients per year.

St. Claire provides health care delivery for over 150,000 people in 11 counties. St. Claire is located in a low-income region of Kentucky and provides as large a proportion of unreimbursed care as any private institution in the State. The philosophy of the institution has always been to provide to all in need, regardless of ability to pay. It is particularly noteworthy that this has been accomplished without operating cost assistance from either the State or the Federal Government.

I congratulate St. Claire Medical Center for receiving the National Rural Health Association Award for Outstanding Rural Practice. I believe the St. Claire Medical Center offers valuable lessons to the Nation as a model of excellent care delivered in a self-reliant and cost-effective manner.•

WHY REICH IS WRONG ABOUT JOBS

• Mr. BURNS. Mr. President, I would like to call to the attention of the Senate an article written by our former colleague from Wisconsin Senator Bob Kasten entitled "Why Reich Is Wrong About Jobs." It was printed in the Washington Times this past Tuesday.

In this article, Senator Kasten argues that the key to creating new jobs is to lighten the tax and regulatory load on America's small businesses—not increase taxes, spending, and regulation as President Clinton and Labor Secretary Robert Reich are poised to do. Small businesses are discouraged from hiring more workers because of rules and red tape burdens imposed on them by Washington. These burdens have raised their cost of doing business. In order to get the job-creating machine moving into high gear, we need to remove burdensome tax and regulatory barriers so that the small, individually-owned business can become a double or triple digit employer.

As a former small businessman and the former ranking member of the Senate Small Business Committee, Senator Kasten knows small business. He wrote this article in his new capacity as chairman of the Center on Regulation and Economic Growth, which is a new research center of the Alexis de Tocqueville Institution. I ask that the article be entered into the RECORD following my remarks.

The article follows:

[From the Washington Times, June 8, 1993]

WHY REICH IS WRONG ABOUT JOBS

(By Robert Kasten, Jr.)

Labor Secretary Robert Reich is right about the problems facing the American worker, but he is wrong about how to go about solving them. Yes, we are experiencing a "jobless recovery," with rates of job creation lagging stubbornly behind those of past upturns.

Yes, we ought to be concerned about the trend toward hiring contingent or temporary workers instead of permanent workers. Yes, in an increasingly borderless world where financial and investment capital flows almost instantaneously, America must put a premium on the development of human capital.

However, raising taxes on labor and capital to fund billions of dollars on public works, job retraining and universal health insurance programs won't work. The reason America isn't creating and upgrading jobs is because government-imposed costs on America's job creators in the private sector have made job creation unaffordable.

Basic economics tells us regulation and taxes create a wedge between what it costs a business to employ a worker and the net benefit the worker receives. Any increase in this wedge raises the businesses' cost of hiring new workers and reduces the net wages that workers receive. The growth of federal and state regulations, mandates and taxes in recent years has dramatically increased labor and capital costs for U.S. businesses, particularly for smaller firms with fewer than 100 workers, that create the overwhelming majority of new jobs.

According to a recent study by the Republican staff of the Joint Economic Committee, legislation passed by Congress in recent years including the Minimum Wage increases in 1989, the Clean Air Act of 1990, the Americans With Disabilities Act (ADA) of 1990 and the Civil Rights Act of 1991 have imposed $120 billion in additional costs on U.S. businesses. And this figure doesn't reflect the increased costs of potential litigation from these new laws.

Add to this the increased income and payroll taxes enacted in 1990, it is no wonder that 2.2 million private sector jobs were lost from 1990 to 1992. With the cost per worker rising, businesses simply cannot hire and retain full-time permanent workers and at the same time stay in business. Instead of hiring that 25th or 30th full-time employee, businesses are resorting to temporary workers and/or automation. In 1988, temporary or contingent workers made up about one-fourth of the labor force. If current trends continue, they will be half of the work force by the year 2000.

This trend toward temporary employment is disturbing for several reasons. One, people aren't on the job long enough to learn basic skills and build adequate pensions. Two, people tend to lose their sense of self-worth and pride in their work if they are constantly changing jobs. Finally, as Mr. Reich puts it. "As the contingent work force grows—as many people find themselves working part time for many different employers—the social contract is beginning to fray."

Mr. Reich and other advocates for public sector activism blame capitalism for deconstructing the permanent work force—and argue that a healthy dose of government is necessary to reverse this trend. But the problem is that we have two much government—and not enough capitalism. Misguided government policies have artificially raised the cost of labor. Moreover, American workers are losing the global competition for jobs as businesses and capital rush to economies with lower labor costs and more favorable tax and regulatory regimes.

The policy agenda of President Clinton and Democrats in Congress threatens to accelerate the jobs problem. The new mandated family leave law provides incentives for businesses to hire temporary workers once they reach the 50 worker threshold where the mandate kicks in. Of all taxpayers that will be hit by Mr. Clinton's increase in the top tax rate from 31 percent to 40 percent, 52 percent are small unincorporated businesses. And now the administration is contemplating a new 7 percent to 10 percent payroll tax on employers to finance more extensive health benefits.

In my view, any effort to truly create jobs should focus on regulatory and tax changes that make it more easier for an individually owned small business to become a double or triple digit employer.

Provide small businesses that employ no more than 100 workers temporary relief from two of the most costly pieces of regulatory legislation—the Clean Air Act and the ADA. ADA will apply to businesses with 15 or more workers and Clean Air will impact the relevant businesses regardless of size. These laws only started to take effect in 1992; some of their more costly requirements are scheduled to take effect in 1994. Those compliance dates should be delayed for two more years to give small businesses a chance to adjust to the added costs.

Repeal the 1990 payroll tax increase. The payroll tax is a direct tax on the employment, particularly on entry-level, low skilled jobs. The Congress has wisely scrapped the Clinton administration's miserly investment tax credit: a payroll tax cut would be the ideal substitute.

Cut the capital gains tax. Since the 1986 Tax Reform Act raised capital gains taxes, the rate of business formations have declined from 703,000 in 1986 to only 628,000 in 1991. Lower rates would increase rewards to risk-taking and entrepreneurship, resulting in a flood on new capital for small and expanding businesses. And more capital means more jobs.

Cut tax rates on the poor and the inner cities. Mr. Clinton's enterprise zone proposal is a pale imitation of Jack Kemp's original idea. It's light on the capital incentives needed to create more employers, and it lacks the tax incentives to encourage the poor to move from welfare to work.

As a former small businessman, I know most businesses would prefer to have full-time workers; job security, company loyalty, and a stable work force help a businesses' bottom line. Lowering tax and regulatory burdens would halt the tread toward shedding permanent jobs. Raising taxes to spend on more government programs and re-regulating the economy, as Mr. Clinton and Mr. Reich are poised to do, would make the "jobless recovery" permanent.●

KIDSTAR 1250 AM RADIO

● Mr. GORTON. Mr. President, on Saturday, May 15, 1993, KidStar 1250 AM radio premiered as Washington State's only commercial childrens' radio station. Broadcast throughout the Puget Sound region, KidStar radio is committed to providing "a wholesome, engaging entertainment choice for children, one that celebrates all that is creative curious, and imaginative in kids. * * *" Through the commitment and endless efforts of hundreds of individuals, kids throughout Puget Sound now have a radio station to call their own.

Already, kids from Seattle to Everett to Tacoma are tuning their radio to KidStar 1250 AM. Thousands of calls have flooded the special KidStar PhoneZones as kids of all ages phone in to voice their opinion, talk to one of the many radio personalities, share jokes with other KidStar listeners or simply get information on local community events. The response has been overwhelming and the excitement continues to grow as more young people realize the value of this unique program.

An extensive and innovative programming format, KidStar radio combines education with entertainment. Through PhoneZones, radio personalities and a quarterly publication, kids now have a creative and enlightening alternative to television. Issues ranging from nutrition to the environment are just a few of the many topics KidStar listeners will have the opportunity to learn about.

Mr. President, not only does KidStar radio enable our children to learn more about the issues which impact their daily life, but it provides them with the opportunity to voice their concerns on topics they feel are important. Registering their opinion, calling in to share their feelings on an issue, and sharing their thoughts with their peers are just some of the ways that children will shape KidStar's format.

I commend KidStar radio for recognizing that today's youth deserve to have their views heard. I am confident that KidStar radio will help our young people grow into more informed, active citizens.

Mr. President, today's kids are the future teachers, business leaders and community servants of our Nation. Recognizing that kids can make a difference in their school and community, I am confident that KidStar radio will continue to serve the community long into the future.●

BASE REALIGNMENT AND CLOSURE COMMISSION

● Mr. COVERDELL. Mr. President, there are few circumstances that would ever cause me to miss voting on the issues before the U.S. Senate. During the past 2 days, however, such circumstances in my State of Georgia have presented themselves.

The Base Realignment and Closure Commission [BRAC] decided approximately 2 weeks ago that it would add four Georgia military installations to its list of facilities under consideration for closure. The four bases in Georgia, Forts McPherson and Gillem in Atlanta, the Warner Robins Logistics Center near Macon, and the Marine Corps Logistics Base in Albany, together directly employ over 30,000 military and civilian workers. Additionally, there are tens of thousands of other workers in these communities whose jobs depend indirectly on the economic activity of these installations. The impact of a base closure on these communities would be devastating, both in economic terms and, I believe, in potential military efficiency and resource structure. Accordingly, I joined with my other Georgia congressional colleagues for the past several days and assisted in a vigorous defense of these installations to the Base Realignment and Closure Commission.

During this time, my senior staff and I have devoted ourselves almost exclusively to the base closure issues and have traveled to each of these installations, worked with local leaders in preparing testimony to the BRAC and have provided other support as it has been called for.

My decision to accompany the head of the BRAC, former-Congressman Jim Courter, on his visits to Forts McPherson, Gillem, and Warner Robins and to join Commissioner Bowman in visiting the Marine Corps Depot at Albany necessitated that I be away from Washington during Senate voting activity.

Yesterday morning, Wednesday, June 9, 1993, I made a formal presentation to the Base Realignment and Closure Commission which summarized the reasons I believe our Georgia military bases are critical to our national defense and to our future strategic military configuration. I request that my remarks to the BRAC be part of today's CONGRESSIONAL RECORD.

The remarks follow:

REMARKS BY SENATOR PAUL D. COVERDELL BEFORE THE DEFENSE BASE CLOSURE AND REALIGNMENT COMMISSION, JUNE 9, 1993

Chairman Courter and Commissioners, thank you for the opportunity to speak before this hearing today. I would like to compliment you on your effort to insure that a fair, accurate and unbiased recommendation will be presented to the President on July 1st. We recognize that it was not required for the Commission to hold as many complete hearings as you have decided to hold in order for you to make the best possible determination. I commend you for taking on this enormous task.

Governor Miller and Senator Nunn have spoken forcefully on the important roles these four Georgia military installations play in our national defense and our state's economy. I fully support their comments.

The case to keep these bases open is compelling. In order of their presentations may I refer to:

1. WARNER ROBINS

Senator Nunn has well described the extensive and highly sophisticated facilities at Warner Robins. Other presenters here today will give details as to why this base is the largest, most efficient, cutting-edge facility

President, Kentucky Country Day is losing a valuable asset to its faculty, but no matter how Mr. Brown decides to spend his newly acquired free time, you can be sure that his lessons will be remembered by those he touched and carried on by all his former students.

Mr. President, I ask my colleagues to join me in honoring this delightful Kentucky gentleman.●

REGARDING THE PROPOSED INCREASE ON TAXES APPLIED TO SOCIAL SECURITY BENEFITS

● Mr. MACK. Mr. President, several of my colleagues and I just came from a news conference to announce the results of a study performed by the National Center for Policy Analysis entitled, "Should 85 Percent of Social Security Benefits be Taxed?"

Put another way: "Should we impose an effective marginal tax rate of up to 104 percent on America's senior citizens?"

Or, put yet another way, "Should we destroy incentives for younger workers to save for their retirement?"

This study answers these questions with a resounding "No".

The President has proposed to increase the amount of Social Security benefits subject to tax from 50 to 85 percent. This is a whopping increase of 70 percent in the amount of income subject to taxation once the threshold is exceeded.

One important point to consider—most people think this is a tax on benefits. But it does not kick in until you reach a certain income threshold. Therefore, in reality, it is not a tax on benefits, it is a tax on income.

As an example, a 62-year-older worker earning more than $25,000, who would otherwise face a 28-percent tax rate, would be subjected to an effective marginal tax rate of 104 percent. In addition to the 28-percent income tax, and the earnings test penalty of 50 percent, they would face a 7.65-percent FICA tax and an 18-percent Social Security benefit tax.

A self-employed worker in a State with a State income tax would fare even worse. They would have to pay the full FICA tax and the State income tax.

Because these income thresholds are not indexed for inflation, the Congressional Research Service estimates that the tax hike would affect approximately 8.1 million beneficiaries, or approximately 22 percent of all Social Security recipients.

The Congressional Budget Office estimates that this number will increase to 30 percent by 1998.

Now I cite both the significant size of this tax increase and the large number of people affected because this proposal really represents a major sacrifice for many older Americans.

But this study also emphasizes that it is not just a tax on grandparents—young working Americans will also be feeling the effect of this tax hike.

Let me explain, and I quote from the study:

Congress adopted a special tax status for employer-provided pensions, IRA's, 401(k)'s, and other retirement plans. People can defer taxes until retirement on the theory that tax rates will be lower for most people after they retire. However, that theory may no longer be true.

Most U.S. workers are in the 15% tax bracket. Yet, because of economic growth, many of these workers will see their retirement income taxed at a rate above 50% under the Clinton plan.

That is because growth and savings income could push them into the 32% tax bracket. Combine that with a 7.65% FICA tax and the proposed 12% benefit tax and it totals a 52% tax rate. Again, let me point out that while most people think of this as a tax on benefits, in reality it's a tax on income.

Let us also look at the effect this tax increase will have on the economy. Again, I quote from the study:

The Social Security benefit tax currently adds about $6 billion of Federal revenue. Over the long run, however, the tax actually reduces Federal revenue.

How? Due to the tax being applied to the tax-deferred savings of young people, it reduces their after-tax return and makes them less willing to save. It discourages saving and investment, it reduces economic growth.

Furthermore, by putting up roadblocks to savings, more people will be eventually looking to the government for assistance.

Nowhere is the Administration's plan to raise taxes more misguided than in efforts to tax Americans who either have already saved for retirement or are currently doing so.

Why are some Democrats angry about people being successful? Why do they want to punish success?

The government is sending Americans of all ages the message that if they save for their retirement years, they'll be punished with a government poised to snatch that savings away. That's wrong. We should be rewarding saving, not punishing it.

The government should be providing incentives—not disincentives—for people to save.

Let me tell you something, President Clinton: Seniors with $25,000 a year of income are not wealthy. They did not "make it in the eighties." As a matter of fact, many of them are in their eighties.

They have to pay for supplemental health insurance, prescription drugs, the high costs of energy, and a variety of other day-to-day needs. They have already paid their fair share of taxes. We should not hit them with a new, burdensome tax simply because they planned early to meet their expenses.

Young Americans are worried about their future. They are getting mixed signals from their Government.

On the one hand they hear the Federal Government saying, "Save now for your family's future." But in the same breath they hear President Clinton saying, "If you do what we suggest and save for your family's future, we're going to penalize you." Where is the logic?

This study brings home the tragic conclusion that there is no logic to this new scheme to deter savings and tax income.

Mr. President, I ask that the study "Should 85 Percent of Social Security Benefits be Taxed?" be inserted in the RECORD.

Mr. President, I further ask that a study by the Heritage Foundation on the Clinton budget also be inserted in the RECORD.

The material follows:

FEDERAL BUDGET ISSUE: SHOULD 85 PERCENT OF SOCIAL SECURITY BENEFITS BE TAXED?

President Clinton proposes to increase the tax on Social Security benefits. Although the administration calls this an "entitlement spending reduction," what it proposes is a tax that will fall primarily on elderly investment income. The remainder of the burden will fall on the wages of elderly workers. If passed into law, the proposal would cause marginal tax rates faced by the middle-income elderly to reach a record high, resulting in less capital and labor, a slower rate of economic growth and a lower income for all Americans.

Current Law. The elderly pay income taxes on up to one-half of their Social Security benefits if their total income (including one-half of their benefits) exceeds $25,000 (individual) or $32,000 (couples). They pay taxes on 50 cents of benefits for each $1 of income above these income thresholds.

Proposed Change. President Clinton proposes to tax up to 85 percent of Social Security benefits. Above the income thresholds, the elderly would pay taxes on 85 cents of benefits for each additional $1 of income. The administration says this change would increase Federal revenue by $23 billion over five years.[1] Proposals to increase taxation on Social Security benefits have long been favored by Budget Director Leon Panetta and by the Brookings Institution and are routinely listed as a budget option by the Congressional Budget Office (CBO).

CALCULATING TAXABLE SOCIAL SECURITY BENEFITS FOR A COUPLE

Combine: wages plus investment income plus tax exempt income equals non-Social Security income.

Add: ½ Social Security benefits.

Subtract (no tax is payable unless the total exceeds $32,000.):

Multiply difference by: 0.50 (current law); 0.85 (Clinton plan).

Taxable Benefits; (treated as taxable income subject to ordinary income tax rates. Maximum taxable benefits are equal to one-half of Social Security benefits (current law) or 85 percent (Clinton plan). Total.

How the Social Security Benefit Tax Works. The Federal government uses a complex formula to determine how much of Social Security benefits is taxable. Here is an example of how the formula works: Suppose an elderly couple receives $12,000 in Social Security benefits and $26,000 in other income. Since the total amount of income as measured by the formula—$26,000 plus one-half of the benefits ($6,000)—is $32,000, the income tax applies only to the $26,000 in non-Social Security income. If they earn $1 more, however, the income tax applies to that $1 plus 50 cents of Social Security benefits. If they earn $12,000 of additional income, an additional $6,000 (one-half of their Social Security benefits) is taxed.

Why the Tax Is Really a Tax on Income. The Social Security benefit tax usually is described as a tax on benefits. In fact, it is a tax on other income. No tax is paid unless a taxpayer's income reaches a certain level. Beyond that point, the tax rises as income rises. Since 50 cents of benefits is taxed for each additional $1 of income, when elderly taxpayers earn $1 they pay taxes on $1.50.

Footnotes at end of the article.

The effective tax rate on income is 50 percent higher than otherwise.

Current Tax Rates on Elderly Income from Savings: 23 and 42 percent. About 60 percent of the income of elderly taxpayers comes from investments (including pensions).[2] For most younger people, the tax rates on investment income are 15 percent and 28 percent. Yet because of the Social Security benefit tax, the rates for the elderly on income from savings can be 50 percent higher.[3] [See Table I.]

- Elderly taxpayers in the 15 percent income tax bracket pay an effective rate of 22.5 percent (15% × 1.5).
- Elderly taxpayers in the 28 percent tax bracket pay an effective rate of 42 percent (28% × 1.5).

TABLE I.—HOW THE SOCIAL SECURITY BENEFIT TAX AFFECTS MARGINAL TAX RATES ON INCOME FROM SAVINGS

[In percent]

	Income tax bracket	Social Security benefit tax	Total tax
Current law	15	7.5	23
	28	14.0	42
Clinton proposal	15	12.8	27.8
	28	23.8	51.8

FIGURE 1.—*Marginal Tax Rates for Savers*[1]

[28 percent income tax bracket]	Percent
Young	28
Elderly (current law)	42
Elderly (Clinton plan)	52

[1] Assumes that adjusted gross income for elderly families is more than $32,000 but that they include less than the maximum amount of Social Security benefits subject to tax.

The President's Proposal: Raise the Rates on Savings to 27.8 and 51.8 Percent. Under President Clinton's proposal, the elderly would pay taxes on up to 85 percent of their Social Security Benefits. Thus, to the extent that they exceed the income threshold, they would pay taxes on $1.85 of each additional $1.00 of income. As a result, the tax rates for the elderly on income from savings would be up to 85 percent higher than those for most younger people. [See Figure 1.]

Elderly taxpayers in the 15 percent income tax bracket would pay an effective rate of 27.8 percent (15% × 1.85).

Elderly taxpayers in the 28 percent tax bracket would pay an effective rate of 51.8 percent (28% × 1.85).

Current Tax Rates on Elderly Wages: As High as 96 Percent. When the Social Security (FICA) tax (7.65 percent) is added to the income tax rates of 15 and 28 percent, marginal tax rates for younger workers are 23 and 36 percent.[4] For the elderly between 65 and 70 who earn more than $10,560 there is an additional penalty. They lose $1 of Social Security benefits for each additional $3 of wages. For those under age 65, the penalty is even more severe: if they earn more than $7,680 in wages, they lose $1 of benefits for each additional $2 of earnings. Add these penalties to the FICA tax, the income tax and the Social Security benefit tax, and the results are as shown in Table II:

Under current law, the marginal tax rate on wage income for someone between the ages of 65 and 70 can reach 80.65 percent.

For a worker between the ages of 62 and 65, the marginal rate is as high as 96 percent.

Thus elderly workers can face a tax rate almost three times as high as the rate faced by a younger worker earning identical income. [See Figure 2.]

The President's Proposal: Raise the Tax Rates on Wages as High as 104 Percent. The president's proposal would make the tax rates on wage income for elderly workers even higher. As Table III shows:

Workers between 65 and 70 years of age would face a marginal tax rate as high as 88.81 percent.

For workers between the ages of 62 and 65, the marginal rate could be as high as 103.5 percent.

This means that workers could pay as much as $1.04 in taxes when they earn an additional $1.00 of income.

FIGURE 2.—*Marginal Tax Rates on Wages under the Clinton Plan*[1]

[28 percent income tax bracket]	Percent
Under age 62	36
Ages 62–65	104
Ages 65–70	89
Over age 70	52

[1] Assumes workers age 62 or older are receiving Social Security benefits, are in the 28 percent federal income tax bracket and are below the caps on the FICA tax, the Social Security benefit tax and the Social Security earnings penalty (which becomes zero once all benefits are lost).

TABLE II.—CURRENT MARGINAL TAX RATES ON THE WAGES OF ELDERLY WORKERS[1]

(In percent)

Tax	15 percent bracket	28 percent bracket
Ages 65–70:		
Income tax	15.00	28.00
FICA tax	7.65	7.65
Social Security earnings penalty	33.33	33.33
Social Security benefit tax[2]	6.25	11.67
Total Federal tax	62.23	80.65
Ages 62–64:		
Income tax	15.00	28.00
FICA tax	7.65	7.65
Social Security earnings penalty	50.00	50.00
Social Security benefit tax[2]	5.63	10.50
Total Federal tax	78.28	96.15

[1] Workers are assumed to be below the caps on the FICA tax, the Social Security benefit tax and the Social Security earnings penalty (which becomes zero once all benefits are lost).

[2] The Social Security benefit tax rate is lower than the rate shown in Table I because of the loss of benefits due to earnings penalty.

TABLE III.—MARGINAL TAX RATES ON THE WAGES OF ELDERLY WORKERS UNDER THE CLINTON PLAN[1]

(In percent)

Tax	15 percent bracket	28 percent bracket
Ages 65–70:		
Income tax	15.00	28.00
FICA tax	7.65	7.65
Social Security earnings penalty	33.33	33.33
Social Security benefit tax[2]	10.63	19.83
Total Federal tax	66.61	88.81
Ages 62–64:		
Income tax	15.00	28.00
FICA tax	7.65	7.65
Social Security earnings penalty	50.00	50.00
Social Security benefit tax[2]	9.56	17.85
Total Federal tax	82.21	103.50

[1] Workers are assumed to be below the caps on the FICA tax, the Social Security benefit tax and the Social Security earnings penalty (which becomes zero once all benefits are lost).

[2] The Social Security benefit tax rate is lower than the rate shown in Table I because of the loss of benefits due to earnings penalty.

Rates for Some Elderly Workers Could Go Still Higher. The tax rates shown in Table III and Figure II are by no means the worst cases. For some workers the rates will be even higher. For example:

If workers face a state and local income tax rate of 5 percent, the highest marginal tax rate on wages could climb to 112.75 percent.

For workers who are self-employed—and thus are paying a 15.3 percent FICA (Social Security payroll) tax—the marginal rate could climb to 120.4 percent.

Elderly workers who are self-employed and living in Montana [see Table IV] could face a 130 percent marginal tax rate.[5]

The Long Reach of the Social Security Benefit Tax. Because of the way income tax returns are organized, many elderly taxpayers do not realize that the Social Security benefit tax actually taxes income. Many also are unaware of how far-reaching it is. The Social Security benefit tax reaches capital gains income, tax-exempt income and Social Security COLA increases [see Table V]. and because many states accept the federal definition of taxable income, it increases some state and local income tax rates by 50 percent.[6] Under the Clinton plan:

Capital gains income would be subject to the 52 percent top rate for persons receiving Social Security benefits versus 28 percent for others.

Tax-exempt income could be taxed at a rate of 24 percent versus a zero rate for younger taxpayers.

Social Security cost-of-living adjustments (COLA) increases would be taxed at a rate as high as 12 percent.

And state and local income taxes could be increased as much as 9 percentage points.

Moreover, the tax rates on these other sources of income would be considerably higher than under current law. [See Figure III.] For example:

Under the Clinton plan, there would be a 24-percent increase in the top marginal tax rate applied to capital gains, withdrawals from pensions and IRAs and other investment income.

There would be a 71 percent increase in the top marginal tax rate imposed on tax-exempt income and entitlement COLA increases.

The Highest Rates Are Paid by the Middle-Income Elderly. A cornerstone of Bill Clinton's election campaign was tax fairness, and the concept of a fair tax burden is being used to promote the Clinton economic package as well. But the Social Security benefit tax increase is anything but fair. If this proposal becomes law, elderly families with incomes between $40,000 and $60,000 could be required to pay several thousand dollars in additional taxes. Since the purpose of the proposal is to reduce the deficit (see the analysis below), why single out the middle-income elderly to shoulder more than their fair share of the load?

FIGURE 3.—*What the Clinton Plan Does to Other Marginal tax Rates of the Middle-Income Elderly*[1]

	Percent
Withdrawals from pensions and IRAs:	
Before	42
After	52
Capital gains:	
Before	42
After	50
Tax exempt income:	
Before	14
After	24
COLA increases:	
Before	7
After	12

[1] Taxpayer is assumed to be in the 28 percent tax bracket, receiving Social Security benefits and below the cap on the Social Security benefit tax.

Moreover, the higher marginal tax rates would affect the incentives of middle-income families, not of the wealthy elderly. Once a taxpayer reaches an income level at which fully 85 percent of Social Security benefits are taxed (about $30,000 of other income for an individual and about $42,000 for a couple), additional income is taxed at ordinary tax rates.[7] The wealthy elderly, who face a marginal tax rate of 31 percent, 36 percent or even 39.2 percent, are made worse off by the Social Security benefit tax. But the tax does not affect their economic decisions. The middle-income elderly, on the other hand, are affected directly. High marginal tax rates affect their decisions to work additional hours, invest in, or sell assets and realize other types of income.

TABLE IV.—STATE TAXES ON SOCIAL SECURITY BENEFITS

State	Top marginal rate (percent)	Income level[1]
Colorado	5.00	All income levels
Connecticut	4.50	All income levels
Iowa	9.98	Over $47,700
Kansas	7.75	Over $30,000 (s)
	6.45	Over $60,000 (m)
Minnesota	8.50	Over $47,110 (s)
		Over $83,300 (m)
Missouri	6.00	Over $9,000
Montana	11.25	Over $58,400
Nebraska	6.92	Over $27,000 (s)
		Over $45,000 (m)
New Mexico	8.50	Over $41,600 (s)
		Over $64,000 (m)
North Dakota	[2]14.00	All income levels with the short form.
	12.00	Over $50,000 with the long form.
Rhode Island[3]		
Utah	7.20	Over $3,750 (s)
		Over $7,500 (m)
Vermont[4]		
West Virginia	6.50	Over $60,000
Wisconsin	6.93	Over $15,000 (s)
		Over $20,000 (m)

[1] S is single and m is married, filing jointly.

[2] As an option any taxpayer may pay 14 percent of federal income tax liability.

[3] Tax is based on federal income tax liability. For taxpayers with federal income tax liability greater than $15,000, the tax equals 32 percent times the amount of federal income tax liability greater than $15,000.

[4] Tax is based on federal income tax liability. The tax equals 34 percent of federal income tax liability exceeding $13,100.

Source: David Baer, American Association of Retired Persons, Public Policy Institute.

TABLE V.—HIGHEST MARGINAL TAX RATES ON INCOME UNDER THE CLINTON PLAN[1]

[In percent]

Type of income	Elderly[2]	Nonelderly[3]
Wages and salaries	104	46
Withdrawals from pensions, IRAs, etc	52	45
Capital gains	52	28
Other investment income	52	45
Tax-exempt income	24	0
Entitlement COLA increases	12	0

[1] Ignores state and local taxes and higher FICA taxes for the self-employed.

[2] Includes people age 62 and over who receive Social Security benefits. Assumes 28 percent federal income tax bracket.

[3] Not receiving Social Security benefits. Assumes a new top income tax rate of 36 percent, a 10 percent surtax on incomes over $250,000, phaseouts of personal exemptions and itemized deductions and elimination of the Medicare wage ceiling.

Why the Social Security Benefit Tax Also Taxes the Young: Congress created a special tax status for employer-provided pensions, IRAs, 401(k)s, Keoghs and SEP (Simplified Employee Pension) plans to encourage retirement savings. The law allows people to avoid taxes now and defer them until their retirement years on the theory that tax rates will be lower for most people after they retire. That theory may no longer be true for many young workers.[9]

The average U.S. worker is in the 15 percent income tax bracket today.

Yet because of economic growth and because of the Social Security benefit tax, many of these workers will see their retirement income taxed at a rate above 50 percent under the Clinton plan.

The proposal to tax 85 percent of Social Security benefits is not merely a proposal to tax the elderly. If enacted, it will immediately decrease the aftertax value of most American workers' pension plans.[9]

Effects of the Proposal on the Budget: Short-Term Revenue Gains, Long-Term Revenue Losses. The Social Security benefit tax currently adds about $6 billion to federal revenue.[10] Over the long run, however, the tax actually reduces federal revenue. Because the tax applies to the tax-deferred savings of young people, it reduces their aftertax return and makes them less willing to save. Because it discourages saving and investment, it reduces economic growth. Even without the adoption of the Clinton plan:[11]

In the year 2000, the Social Security benefit tax will cause an $84.4 billion reduction in our GNP.

At that time, annual total federal revenue will be $10 billion lower because of the tax.

Eroding the Philosophical Underpinnings of Social Security. To ensure popular support, the designers of Social Security wanted benefits to be something that people earned and not a handout. They also wanted government to be obliged to pay promised benefits. They accomplished these objectives by linking payroll taxes paid with benefits received.[12] Payroll taxes exclusively funded Social Security for the first four decades. Then, in 1983, the link was broken. Social Security benefits were taxed for the first time to help fund the continued payment of benefits. Because the resulting tax revenues were explicitly earmarked for Social Security, the benefits taken from better-off beneficiaries were kept within the system.

In yet another break with the past, the Clinton administration proposes to use the revenues from higher Social Security benefit taxes for general deficit reduction. Taking this money breaks the link between contributions going in and benefits coming out. Blurring the distinction between Social Security and other programs will make it easier to renege on promised benefits in the face of the significant tax increases that will be needed sometime after the turn of the century.[13]

Is There a Better Way? Yes. The argument for taxing Social Security benefits is that the beneficiaries paid for only a small portion of their benefits through payroll taxes.[14] Even if the argument is accepted, beneficiaries should be taxed at the same marginal tax rate as all other taxpayers. For example, a portion of Social Security benefits could be included in the ordinary income of elderly beneficiaries—taxable at ordinary income tax rates. The elderly would face the same marginal tax rates as younger taxpayers. Exemptions could be raised to prevent undue hardship for the low-income elderly without increasing marginal tax rates.

Encouraging the elderly to work and to save is important to the economic well-being of the nation. The withdrawal of elderly workers from the labor market is costly for the nation as a whole. In addition to their talents, they contribute to the nation's output of goods and services and to both tax revenue and Social Security revenue. The Labor Department warns that in the long run we face labor shortages, and elderly workers will be needed to help fill the gap.[15]

Although the elderly constitute only 12 percent of the population, they hold about 40 percent of all capital assets in the United States.[16] The driving force behind the American economy is its ability to combine labor with larger and larger amounts of capital. More capital per worker leads to more output per worker. These productivity gains result in higher wages and a higher standard of living for all Americans. To the degree that government discourages saving for the retirement years, everyone is worse off—old and young.

ALDONA ROBBINS.
GARY ROBBINS.
JOHN C. GOODMAN.

NOTE. Nothing written here should be construed as necessarily reflecting the views of the National Center for Policy Analysis or as an attempt to aid or hinder the passage of any bill before Congress.

FOOTNOTES

[1] The original proposal released in February put the tax increase at $29 billion over five years. However, the formal budget document released on April 8 lowered that estimate by $6 billion. Employee Benefit Research Institute Notes, Vol. 14, No. 4, April 1993, p. 7.

[2] See Aldona Robbins and Gary Robbins, "Elderly Taxpayers and the Capital Gains Debate," National Center for Policy Analysis, NCPA Policy Report No. 153, July 1990.

[3] Assumes taxpayer is below the maximum Social Security benefit tax.

[4] We have counted only the employee's share of the FICA tax because that is directly deducted from the paychecks of workers. Most economists, however, would agree that workers pay the employer's share (also 7.65 percent) as well in the form of reduced wages. Our calculations of marginal tax rates, therefore, are conservative.

[5] Based on a 10 percent state income tax rate that applies to Social Security benefits.

[6] Currently, 15 states tax Social Security benefits: Colorado, Connecticut, Iowa, Kansas, Minnesota, Missouri, Montana, Nebraska, New Mexico, North Dakota, Rhode Island, Utah, Vermont, West Virginia and Wisconsin. See David Baer, "State Taxation of Social Security and Pension," American Association of Retired Persons (AARP), Public Policy Institute, Issue Brief No. 12, June 1992. See also Table IV in this report.

[7] Assumes the individual receives a benefit of $10,000 and the couple receives a $20,000 benefit. Someone who always earned the average wage retiring at age 65 in 1993 would be entitled to a benefit of $9,853. 1993 annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds, Washington, DC, April 1993, Table II.F.12, p. 112.

[8] Aldona Robbins and Gary Robbins, "Taxing the Savings of Elderly Americans," National Center for Policy Analysis, NCPA Policy Report No. 141, September 1989.

[9] In the year 2010, when the average Social Security benefit for a couple will be $36,000, these high marginal tax rates would apply to as much as $62,000 of other income. As a result, most of today's workers would pay these high tax rates on most of their income after retirement.

[10] 1993 OASDI Trustees' Report, Table II.F.12, p. 112.

[11] Robbins and Robbins, "Taxing the Savings of Elderly Americans," Table XVI. Amounts are in current dollars.

[12] As President Franklin Roosevelt put it, "With those [payroll] taxes in there, no damn politician can ever scrap my Social Security program." Aldona Robbins, The ABCs of Social Security (Washington, DC: Institute for Research on the Economics of Taxation, 1988), pp. 1-5.

[13] Although Social Security is currently running a surplus, deficits will appear as the Baby Boomers approach retirement. For a discussion of long-run problems, see John C. Goodman and Aldona Robbins, "The Immigration Solution," National Center for Policy Analysis, NCPA Policy Report No. 172, August 1992.

[14] Note that the argument can easily be reversed for young workers. Many of today's young people will pay more in Social Security taxes than they will ever receive in benefits. So if the goal is to make taxes equal benefits, we should lower the payroll tax for the current generation.

[15] Labor Market Shortages, U.S. Department of Labor, 1989.

[16] Aldona Robbins and Gary Robbins, "Taxing the Savings of Elderly Americans," Appendix B.

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THE NATIONAL CENTER FOR POLICY ANALYSIS

The National Center for Policy Analysis is a nonprofit, nonpartisan research institute, funded exclusively by private contributions. The NCPA originated the concept of the Medical IRA (which has bipartisan support in Congress) and merit pay for school districts (adopted in South Carolina and Texas). Many credit NCPA studies of the Medicare surtax as the main factor leading to the 1989 repeal of the Medicare Catastrophic Coverage Act.

NCPA forecasts show that repeal of the Social Security earnings test would cause no loss of federal revenue, that a capital gains tax cut would increase federal revenue and that the federal government gets virtually all the money back from the current child care tax credit. These forecasts are an alternative to the forecasts of the Congressional Budget Office and the Joint Committee on Taxation and are frequently used by Republicans and Democrats in Congress. The NCPA also has produced a first-of-its-kind, pro-free-enterprise health care task force report, written by 40 representatives of think tanks and research institutes, and a first-of-its-kind, pro-free enterprise environmental task force report, written by 76 representatives of think tanks and research institutes.

The NCPA is the source of numerous discoveries that have been reported in the national news. According to NCPA reports:

Blacks and other minorities are severely disadvantaged under Social Security, Medicare and other age-based entitlement programs;

Special taxes on the elderly have destroyed the value of tax-deferred savings (IRAs, employee pensions, etc.) for a large portion of young workers; and

Man-made food additives, pesticides and airborne pollutants are much less of a health risk than carcinogens that exist naturally in our environment.

What others say about the NCPA

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THE HERITAGE FOUNDATION.—HOW CLINTON'S BUDGET PLAN TAXES THE ELDERLY

(Updating Backgrounder Update No. 192, "The Houses Budget Reconciliation Bill: Making a Bad Budget Even Worse," May 25, 1993; Backgrounder No. 942, "Why Higher Tax Rates on Income Will Slow Growth, Cost Jobs," May 25, 1993; Backgrounder No. 932, "Taxes, Spending, Gimmicks, and Snake Oil: Why Bill Clinton's Budget Is Bad for America," March 16, 1993.)

The House of Representatives last week passed its budget reconciliation bill (H.R. 2141) enshrining the Clinton Administration's tax and spending proposals. Many elderly Americans are unaware that buried in the plan (section 14215) is a discriminatory tax increase on middle-income senior citizens who depend for their retirement on money from sources other than Social Security—such as individual retirement accounts (IRAs), 401(k) plans, bank certificates of deposit (CDs), mutual funds, pensions, or wages from part-time employment.

The tax actually is a special surtax on the elderly, designed to increase automatically every year at twice the rate of inflation. Moreover, it is levied on what the tax code calls "provisional income." The surtax effectively double-taxes every investment a worker undertakes to provide for is or her retirement—particularly tax-sheltered savings such as IRAs, 401(k) plans, and municipal bonds.

Earlier this year, the White House was calling this new surtax a "spending reduction" in Social Security. Officials tried to justify that deception as follows: They said the Reagan Administration had used such a budget concept in 1984 when tax receipts were deposited back into the Social Security trust fund to help rebuild reserves.

But the new tax increase has very different implications for the elderly because it does nothing to help assure the fiscal integrity of the Social Security system. The report issued by the House Ways and Means Committee to accompany H.R. 2141 makes clear that lawmakers and the public were missed by the White House's original characterization. The key point is that new tax revenue will not be credited to the Social Security trust funds. It will simply go to the federal government's General Fund, to be spent on other programs. When tax money collected is not deposited back into the trust fund from which it came, it hardly can be called a "spending reduction." It is simply a surtax on the savings and pensions of middle-income elderly people.

HOW THE SURTAX ON "PROVISIONAL INCOME" HITS IRAS AND PENSIONS

The "provisional income" tax is a comprehensive levy on all the income and savings (such as IRA withdrawals) of senior citizens in the middle range of income. Significantly, it includes everything normally exempt. The tax is calculated on a separate schedule based on income that includes regular income and taxable withdrawals from IRA and 401(k) plans, taxable interest from savings, dividends, rents, and capital gains from investments. But it also includes tax-exempt interest on municipal bonds, certain foreign source income, as well as half of the retiree's tax-exempt Social Security pension.

The effect of this surtax is to place America's middle-income elderly in a special, higher bracket by virtue of their age. For instance, if an individual younger than retirement age receives $1 from savings, the income tax will take 15 cents in the lowest tax bracket. But some Americans must also calculate a surtax on their "provisional income," and a second 15 cents on the same $1 of savings would be due under the surtax. And if that taxpayer were just below the 28 percent tax bracket, the government's income calculation would push the elderly American into the next highest bracket and the higher marginal tax rate would apply.

The surtax is targeted on middle-incomes retirees because it applies only over a range of income that falls between a fixed threshold and a variable cap. The threshold is $25,000 ($32,000 for joint returns, and not indexed for inflation). The cap is indexed for inflation and will go up every year; it is currently equal to 50 percent of one's Social Security pension. The Clinton Administration proposes to increase the cap dramatically this year, from 50 percent to 85 percent of the Social Security amount, which will elevate the cap even more in future years. Only "middle income" elderly Americans are subject to this surtax—those with incomes above the cap are not liable for the surtax.

A STEALTH TAX, GROWING WITH INFLATION

The surtax on "provisional income" is designed to start off at a modest level, taking money from only a few retirees. But gradually it will grow to encompass more and more less-well-off Americans over age 65. The silent effects of inflation will cause an insidious deepening of the surtax threshold. Since the threshold amount of $25,000 is not indexed for inflation, it will drop in real terms each year, encompassing millions of additional elderly Americans. Today most Social Security pensions are under $12,000 per year. But at today's inflation rate, most Social Security pensions by the year 2015—when the baby boom generation begins to pass age 65—will be greater then the threshold and everything a retiree has saved may be subject to the surtax.

EXAMPLE 1

Take the example of a retired store manager whose retirement income is $35,500. His lifetime earnings from wages and salary were near, but not above, the maximum wage base for Social Security tax. He receives a modest pension from his former employer, and managed to accumulate savings in a tax-sheltered 401(k) account during his working life (which is now held as an IRA). In addition he has invested in some tax-exempt municipal bonds and taxable certificates of deposit.

	Actual income	Provisional income amount
Tax exempt income:		
Untaxable Social Security	$9,000	$4,500
Municipal bond income	2,000	2,000
Total	11,000	
Taxable income:		
Pension from employer	17,500	17,500
Taxable interest from CDs	2,000	2,000
IRA withdrawals during year	5,000	5,000
Total	24,500	31,000
Threshold		(25,000)
Taxable amount		6,000
Elderly surtax at 15 percent		900

EXAMPLE 2

A married, retired plant manager with an engineering firm, whose retirement income is $59,400, would pay the maximum surtax. His lifetime earnings from wages and salary were always above the maximum wage base for Social Security tax. He receives a generous pension from his former firm, and managed to accumulate savings in a tax-sheltered 401(k) account during his working life (which is now held as an IRA). In addition he has invested in tax-exempt municipal bonds and taxable certificates of deposit.

	Actual income	Provisional income amount
Tax exempt income:		
Untaxable Social Security	$20,300	$10,150
Municipal bond income	2,000	2,000
Total	22,300	
Taxable income:		
Pension from firm	30,100	30,100
Taxable interest from CDs	2,000	2,000
IRA withdrawals during year	5,000	5,000
Total	37,100	49,250
Threshold		(32,000)
Taxable amount		17,250
Elderly surtax at 28 percent		4,830

If this individual had a one-time capital gain from the sale of his home which put him into the top 36 percent tax bracket, his surtax that year would be $6,210, or $1,300 higher.

CONCLUSION

Whether Social Security should remain a tax-exempt pension, or whether it should be taxed like any private pension can be debated. But the method adopted in the House budget reconciliation bill to calculate the tax on "provisional income" means a higher tax rate on savings and investment—thus a tax on each American's preparation for retirement and self-sufficiency in old age, and a penalty on savings.

JOE COBB,
John M. Olin Fellow.

APPOINTMENT BY THE PRESIDENT PRO TEMPORE

The PRESIDING OFFICER. The Chair, on behalf of the President pro tempore, pursuant to Public Law 101–194, appoints Walter B. Gerken, of California, to the Citizens Commission on Public Service and Compensation.

ORDER FOR RECOGNITION OF SENATORS

Mr. FORD. Mr. President, I ask unanimous consent that during the period for morning business on Tuesday, June 15, there be up to an hour under the control of Senator HARKIN or his designee, with the time to follow the time previously ordered for Senator BYRD, and that Senator GRAMM of Texas be recognized for up to 10 minutes.

The PRESIDING OFFICER (Mr. BRYAN). Without objection, it is so ordered.

RECESS UNTIL 2:30 P.M. MONDAY, JUNE 14, 1993

Mr. FORD. Mr. President, there being no other business to come before the Senate, I ask unanimous consent that we now stand in recess under the previous order.

There being no objection, the Senate, at 8:05 p.m., recessed until Monday, June 14, 1993, at 2:30 p.m.